Interim Policy for Full Cost Implementation

Fiscal Year 2004 is the first year for NASA's implementation of Full Cost budgeting, accounting, and management. It is our ultimate intent to weave full cost policy and requirements throughout the body of the Financial Management Regulation (FMR). However, until a formal policy document is established, the Agency CFO will issue interim guidance on this topic in the form of a memorandum. The following represents just such direction with particular emphasis on FY04 implementation issues.

I. Background

A Project's costs for procurements, civil servant labor, and travel are all considered direct costs to that project. However, service pools, Center and Corporate General and Administrative (G&A) costs also have these same "direct" costs in support of operating these business units. Labor and travel costs must be posted to the projects or business units sponsoring the activity. Leave & fringe for the civil servant labor has to be statistically assessed against the projects or business units as well. Since NASA is implementing Full Cost at the "Project" level, all costs incurred by the non-project entities must be assessed back to the Projects. The true costs of our Projects within any given operating year are only complete when these non-project costs are assessed to Projects based on the standard bases of consumption. These "cost assessments" require the service pools and G&A business units (i.e., Centers and Headquarters) to post their costs against the projects based on the units consumed to date multiplied by a standard rate.

It will be necessary, throughout the operating year, for each Center to review the expenditures and revenues of each business unit (service pools and Center G&A) against the remaining current operating year's requirements. This is necessary to determine if all costs of the business unit can be adequately recovered through payments from the customers (projects) or whether a rate change is required. The following policy statement will address a range of Full Cost processing items including labor and travel posting, cost assessments, service pool and G&A consumption basis, rate reviews and rate adjustments.

II. Service pools, Basis of Consumption, and Service Level Agreements

For FY04, the six (6) Agency approved standard Center Service Pools and their bases of consumption are:

Service Pool	Basis of consumption
1. Facilities & Related Service	square feet (planned)
2. Information Technology Service	
a. Desktops	seats (planned)
b. Computing	CPUs (planned)
c. Telecommunications (phones)	Lines (planned)
d. Other IT services	actual direct labor hours*
3. Science and Engineering Service	actual direct labor hours*
4. Fabrication Service	actual direct labor hours*
5. Test Service	actual direct labor hours*
6. Wind Tunnel Service	operating shifts**

* Actual direct labor hours include both the civil service and on-site contractors.
** Wind Tunnel Service pool is only applicable for ARC, GRC and LaRC.
Note: There will be a seventh service pool for FY05.

Each project at a Center should enter into a negotiated agreement with the service pools for products and services required for implementation. This negotiated level and type of service with each Project should be of sufficient detail to serve as a "contract" for an operating year's work. This is generally referred to as a Service Level Agreement (SLA). Projects are responsible for providing funding to the service pools based on the terms of the SLA. The service pools, likewise, are responsible for providing services consistent in scope and units to the SLA. As the year progresses, both parties should ensure that any changes to this agreement are captured as mark-ups to the SLA.

A Center must use the standard service pools unless it is clear that the cost of operating the service pool exceeds any accruing benefit, or a service pool does not meet the specific needs of the Center. The Center CFO is responsible for providing written requests to the Agency CFO for any deviations (additions or deletions), including sub-pool definition, from the above standard service pool list each year prior to Program Operating Plan (POP) submission. If approved, the affected Center service pools must still roll-up to and be mapped to the standard service pools for comparison and benchmarking purposes.

For the assessments that utilize "actual direct labor hours" as the basis of consumption, planned contractor hours may be used only in the case where actual onsite contractor hours are not available. We recognize that the monthly reporting for contractor Work Year Equivalents (WYE) is not currently supported by most contracts, nor required by the NF533. Code B is currently seeking a solution for this reporting deficiency.

The Center G&A basis of consumption is the "on-site" Work Force Equivalents (WFE), which represent the sum of civil servant Full-Time Equivalents (FTE) and contractor Work Year Equivalents (WYE) for both the project staff and service pool personnel that directly support the project. The term "on-site" is used loosely here, because the Center CFO, with approval of the Center Director, can designate personnel located outside the gate as "on-site" if a significant amount of Center G&A services are utilized by that program, project or organization.

The Corporate G&A basis of consumption is Project Budget Authority, which is the sum of all new budget authority for all direct cost elements for Projects (procurements, civil servant salary/benefits and travel) plus the cost of the service pool activities. The G&A cost elements (Center and Corporate) are not included in this calculation.

All NASA installations must use the above bases of consumption for FY04 and beyond. Any deviation will require approval by the Agency CFO.

III. Labor Charging and Posting

It is the responsibility of every NASA civil servant to record his or her time as accurately as possible against the particular program, project, service pool or G&A activity consistent with the work performed. The goal is to record to the "direct labor hour" for the work performed. This is particularly true where the labor charge codes exist within WebTADS for that particular program, project, service pool overhead or G&A function. If the proper labor charge code does not yet exist, then exceptions may be made. In some cases, there are examples of alternative charge codes like Center or Organization "All Hands," awards ceremonies, education outreach and PAO events. Use of these should be rare and only represent a small fraction of an employee's time. In those cases where even these alternative codes do not exist (in FY04), employees should charge their time to the activity using most of their time for that pay period. Centers and HQ should work to define, budget, fund and account as accurately as possible and where necessary ensure that additional labor charge codes are made available.

Centers and Headquarters should use, whenever possible, actual monthly cost and consumption data. However, due to timing issues related to month end cut-off, it is not always feasible to use the most recent month's actual labor information. The previous month's actual labor information will often have to be used until timing and system configuration issues can be further refined.

For Facilities and Information Technology service pools, planned data can be used for the month's estimate. Planned data may also be used for onsite contractor hours. These data should be updated to support rate reviews.

Therefore, the following directs which data should be used for labor charges and posting in FY04:

Monthly Posting	Data used
October	October actuals
November	October actuals
December	November actuals
January	December actuals
February	January actuals
March	February actuals
April	March actuals plus the adjustments from the six month period
May	April actuals
June	May actuals
July	June actuals plus the adjustments from the three month period
August	July actuals
September	September actuals plus adjustments (September actuals can be used for September processing since there is more time allotted due to end of the year processing.)

In April, a reconciliation of the actual hours incurred for the six-month period should be performed and adjustments made to the assessments previously processed. In July another "sync-up" should be performed to reconcile the previous three months' estimated consumption with the actual consumption. And in September, you should perform another "sync-up" to reconcile the remaining two months estimated consumption with the actual consumption.

IV. Cost Assessments and Reporting

Accurate and complete reporting on a monthly basis has been and will remain the standard practice for NASA. Agency, Enterprise and Center management utilize Erasmus reporting monthly to assess the overall health of some of our development projects. In order for this information to be both complete and timely, all NASA elements (projects, service pools, Center G&A and Corporate G&A) must submit and maintain financial data every month. Projects and business units are required to manage all direct costs in the Core Financial (CF) module of the Integrated Financial Management (IFM) system while tracking all costs (direct, service pool and G&A) in Business Warehouse (BW). Service pool, Center G&A, Corporate G&A, civil service labor, and civil servant leave and fringe managers are therefore required to perform monthly "Cost Assessments" (also utilizing CF) against the projects as well as compile their respective operating reports to monitor variances and proactively control costs.

As FY04 is a transition year, special attention will need to be given to cost assessments back to Projects. Consumption data for most pools are based upon actual civil service hours plus planned contractor labor hours. Fund Distributions (especially during

Continuing Resolutions) from projects to pools may not occur at the same rate as the consumption is incurred. Every effort should be made on a monthly basis to obtain sufficient funds transfer from the project for which services are performed to cover assessments against that project prior to the close of the fiscal period. However, in the event that the project has not yet provided up front funding to the pool, the assessment of work performed to the projects should still be recorded. This is necessary so both the service provider (pool manager) and the customer (project manager) can clearly understand where funds are owed and charges have incurred. Pool managers must assure that these charges are covered by the end of the quarterly reporting period. "Off charging" pool costs from one project to another project is prohibited.

Consumption data should be evaluated monthly against the plan (defined through the SLA for service pools) for the operating year and month to assure that the project's Work Breakdown Structure (WBS) or Cost Centers for other pool charges are valid. The service providers should be careful to understand funding implications when providing support for projects in FY04 that were due to terminate at the end of FY03 because these FY03 projects did not receive funding to cover all the Full Cost elements (labor, travel, etc). Work on these projects may continue in FY04 but Centers will need to work with the responsible Enterprise for a source of funding (sister program or project) or fund the charges through Center G&A.

For those cost assessments utilizing a standard rate multiplied by consumption data, the business unit managers (i.e., for service pools and G&A) will need to closely monitor planned costs vs. assessed costs variances, as well as, cost-assessed variances vs. funding received from that project. As with labor posting, reconciliations need to settle any significant variances. These reconciliations should happen in time to support rate reviews.

V. Rate Development, Reviews, and Changes

Full Cost requires careful and meticulous planning. During the rate determination phase, strict attention must be paid to the fixed and variable costs of the service, the number and volume of the projected customer base and the previous performance periods. Although a service pool should operate as a business unit, their rates should simply generate enough revenue to "break even" at the end of the fiscal year. Therefore, when developing rates and negotiating SLA, consideration should be given to the amount of reserve necessary to ensure fiscal stability for the service year.

Throughout the year it will be necessary to thoroughly review each of the service pool and Center G&A business units' financial reports (similar to programs/projects reporting to the Program Management Councils). Each Center should set up necessary Center business management forums and processes to accomplish these rate reviews. Ideally, we would have the first review occur after the first 4 months are in the books (i.e., sometime in February). This is necessary to serve as a data reference point for the upcoming POP cycle. The second rate review should occur 4 months later (June) with another quick review after the end of the fiscal year (October). Assurance that the consumption data has been "trued up" to actuals must be completed prior to recommending rate adjustments. Analysis of the cost recorded for the pool should be evaluated against expected costs to assure that all cost accruals have been recorded. Based on the cost information and the true up of consumption data, this last review should primarily address whether or not a negative rebate or additional assessment needs to occur to the projects as part of the final assessment cycle for the fiscal year.

Service pool and G&A managers will need to present variances against:

a. all of their cost elements (procurements, civil servant labor, travel, other applicable service pool charges);
b. the work force elements (number of civil servants and contractors) both on-site and off-site; and
c. consumption (volume) –for Service pool managers only.

Both service pool and G&A managers will need to show run-out plans through the end of the current operating year.

Rate changes to recoup costs in a service pool or Center G&A should be avoided and only held as a last possible option. The conditions for a proposed change should be extreme in nature. Service pool and G&A managers should always look for every possible means of either increasing business or deferring expenditures in order to cover its costs at the end of the year. The Center business management forum should be active in addressing rate issues. All rate changes have to be approved by the Center Director and communicated to the responsible Institutional Program Office (IPO), affected Enterprises, the Agency CFO, and the Associate Deputy Administrator for Institutions & Asset Management.